

VZCZCXR05599
RR RUEHCN RUEHVC
DE RUEHGH #0557/01 2431117
ZNR UUUUU ZZH
R 311117Z AUG 07
FM AMCONSUL SHANGHAI
TO RUEHC/SECSTATE WASHDC 6211
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC
RUEHGH/AMCONSUL SHANGHAI 6662

UNCLAS SECTION 01 OF 04 SHANGHAI 000557

SIPDIS

SENSITIVE
SIPDIS

STATE FOR EAP/CM, INR/B
STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER; SAN FRANCISCO FRB FOR CURRAN/LUNG; NEW YORK FRB FOR DAGES/CLARK
STATE PASS CEA FOR BLOCK
STATE PASS USTR FOR STRATFORD/WINTER/MCCARTIN/ALTBACH/READE
USDOC FOR 4420
USDOC FOR ITA/MAC DAS KASOFF, MELCHER AND MCQUEEN
TREASURY FOR EXEC - TSMITH, OASIA/ISA -DOHNER/BAKER/CUSHMAN
TREASURY FOR WRIGHT AND AMB HOLMER
NSC FOR MCCORMICK AND TONG

E.O. 12958: N/A

TAGS: EFIN PREL ECON PINR KPAO CH

SUBJECT: SHANGHAI FINANCIAL LEADERS DISCUSS SED

REF: A. SHANGHAI 159

1B. SHANGHAI 534
1C. SHANGHAI 481

SHANGHAI 00000557 001.2 OF 004

(U) This cable is sensitive but unclassified and for official use only. Not for distribution outside of USG channels or via the internet.

11. (SBU) Summary. According to Chinese financial service company executives, the Strategic EcoQic Dialogue (SED) plays an important and positive role in advancing U.S.-Chinese relations and understanding. While foreign investments in the financial services sector, and the technology, products, and management expertise that comes with these investments, are welcome, several interlocutors commented on the perceived "aggressiveness" of U.S. companies who insisted on management control. Continued engagement through the Chinese press will be a crucial means to convey information about the SED to Chinese financial services sector leaders. End summary.

12. (SBU) Consul General discussed the Strategic Economic Dialogue (SED) with Bank of Communications (BOCOM) President Li Jun, Shanghai Dragon Investment Company President Shi Derong, Haitong Securities Company Chairman Wang Kaiguo, Tian An Insurance Company Chairman Chen Pojian, China Pacific Insurance Company Vice General Manager Xu Lianhui, and Guo Tai Jun An Securities Company Vice General Manager Tuo Qibin on August 27, 2007. (Note: Biographies below. End note.) While steering away from the more political questions, these Shanghai-based financial services executives praised the SED as a useful mechanism enhancing United States-China understanding and cooperation.

The SED: A Positive Force in U.S.-Sino Relations

13. (SBU) BOCOM's Li said that the SED was a very important mechanism for strengthening the United States-China bilateral

relationship. Noting China's growing power economically and politically, he said that it was important to engage with the United States on economic issues. China had made the transition from a planned economy to an open economy in a relatively short time. Citing BOCOM's cooperation with its partner, HSBC, Li said that foreign banks provide access to the technology and experience that Chinese banks have lacked. China must continue engaging the United States on these issues and the SED provided a forum for the high-level government involvement necessary.

¶ 14. (SBU) Tian An's Chen agreed that the SED was a positive force in U.S.-Chinese relations. He observed that Secretary Paulson has been exerting pressure on China to increase the rate of RMB appreciation. Even prior to the SED, Chen said, there were Chinese proponents and opponents of RMB appreciation. Policy makers were forced to weigh all arguments concerning the value of the RMB against the backdrop of potential economic and political instability that might arise. Any policy that negatively affected social harmony was politically very difficult for the Chinese Government to take.

¶ 15. (SBU) Guotai Junan's Tuò said that U.S.-China cooperation was very important given the trend towards economic globalization. The SED plays an important role helping the leaders of the two countries manage the relationship and deal with problems. The U.S.-Chinese relationship greatly influences the health of the world's economy. Whatever can bring the two countries closer together is good for the whole world.

Foreign FinServ Investments Are Welcome...

¶ 16. (SBU) The Chinese participants in this meeting postulated that "making money" was the primary goal behind USG advocacy for opening up China's financial services sector to foreign competition and investment. Since Chinese financial services companies had access to investment funds from domestic sources, the largest benefit to China of foreign investment in financial

SHANGHAI 00000557 002.2 OF 004

services was the technology, management expertise, and know-how that came along with the money.

¶ 17. (SBU) BOCOM's Li "welcomed" foreign investments in China citing the numerous advantages that the foreign financial services companies bring with them. In addition to foreign capital, Chinese companies have benefited from the expertise and management experience, new financial products ideas, and increased risk management capabilities that have accompanied these foreign investments. Tian An's Chen agreed, but cautioned that the Chinese would move at a slower pace than hoped for by the Americans. Citing a Lloyds of London study warning about insurance companies that expand too quickly, Chen said that steady and supported growth was best. According to Chen, the report identified many insurance companies that grew rapidly for four years and then collapsed in their fifth year of operations. Haitong's Wang noted that some Chinese insurance companies are encountering new difficulties after several years of fast growth.

...But Americans Are Too "Aggressive"

¶ 18. (SBU) BOCOM's Li said that U.S. companies and USG emphasis on owning a controlling stake of the joint venture was very "aggressive" and stood in stark contrast to the more accommodating approach taken by European and other non-American companies. Haitong's Wang agreed, saying that European and Canadian companies were not as concerned with guaranteeing management control. Guotai Junan's Tuò said that following China's WTO accession, U.S. companies were "very strong and aggressive" in demanding access to China. American companies were often short-sighted in aggressively pushing for advantage

where a long-term and more collaborative approach would better suit their Chinese partners.

¶19. (SBU) BOCOM's Li said that China has spent more effort studying the United States than the United States has spent studying China. As a result, the Chinese know and understand the United States better. More Chinese have also visited the United States than the other way around. This has ramifications in the U.S.-Chinese business relationship. Li said that American businessmen, as a result of this lack of understanding, depend too much on Singaporean, Taiwanese, and Hong Kong staff and middlemen. While of Chinese ethnicity, reliance on these "channels" to do business has negative consequences, said Li.

America: Appreciating the Cheap RMB?

¶10. (SBU) Guotai Junan's Tuo said that the Chinese Government understands that there are both benefits and dangers associated with a free-floating currency. Noting the problem that "hot money" was causing China's macro-economic policymakers, Tuo said that China needed to keep the RMB cheap so that it would have the freedom to keep labor prices cheap. Cheap labor prices insure inexpensive exports to the rest of the world. "And don't American consumers benefit from this cheap labor?" asked Tuo.

SED Information Gleaned from the Press

¶11. (SBU) Meeting participants said that they learned about the SED mostly through what they read in the Chinese press. One participant suggested that the SED be expanded to include sessions with representatives from the private sector as a way to better exchange information about developments between the two sides. (Comment: Many Chinese financial services leaders have limited English facility and, as the meeting participants said, depend on Chinese media for information. Continued engagement of Chinese business press publications through interviews and providing talking points translated in Chinese is an effective method to reach this audience. End comment.)

SHANGHAI 00000557 003.2 OF 004

Shanghai Stocks: Bullish With a Chance of Volatility

¶12. (SBU) Meeting participants discussed the recent highs set by the Shanghai Stock Exchange (Ref B) and noted the extremely high price to earnings (P/E) ratios of the stocks listed. They roundly congratulated Haitong's Wang for his company's recently successful backdoor listing (Ref C). Wang speculated that the high P/E ratios were caused by too much money chasing too few stocks. Noting that Haitong conducts its own proprietary investing and is thereby exposed to gains and losses in the market, Wang said that he expected there would be increased volatility, but that the market would make some additional gains before the end of 2007.

Tianjin Still Not A Threat To Shanghai's Financial Role

¶13. (SBU) When discussion turned to the August 20 State Administration of Foreign Exchange (SAFE) announcement that individual investors would be allowed to invest directly in overseas securities through the Bank of China Tianjin Branch, the meeting participants noted that this policy had been under discussion for a long time and that they had hoped the pilot program would originate in Shanghai. Attributing Tianjin's success to Tianjin Mayor and former People's Bank of Governor Dai Xianglong's political connections and Tianjin's hope to regain its pre-1949 role as a financial center, BOCOM's Li said that Shanghai's role as China's financial center was not in

question. The other participants agreed and noted that the program would soon be expanded to Bank of China branches in major cities throughout China.

Biographies of Attendees

¶14. (SBU) Shi Derong, President, Shanghai Dragon Investment Co., Ltd. Dr. Shi has served as the President of Shanghai Dragon since the company's founding in 2003. Shanghai Dragon is a state-owned asset management company with registered equity of US\$380 million. Previously, Dr. Shi was the Director of the Shanghai Civil Affairs Bureau. Dr. Shi is the Chairman of the Shanghai Special Olympics Committee. According to recent media reports, Shi will be appointed as the President of Shanghai Guo Sheng Group, controlling Shanghai government's investment in the industrial sector.

¶15. (SBU) Wang Kaiguo, Chairman, Haitong Securities Company. In addition to his role as Chairman at Haitong, Dr. Wang is Vice Chairman of the China Securities Association, Director of the Shanghai Stock Exchange and a researcher at the China Academy of Social Sciences. He has a PhD in Economics. Before joining Haitong, Dr. Wang held numerous positions at the State-owned Assets Supervision and Administration Commission (SASAC).

¶16. (SBU) Li Jun, President of Bank of Communications. Li is the Executive director, Vice Chairman of the Board and President of the Bank. Bank of Communication (BOCOM) is one of the top five commercial banks in China and is the largest bank headquartered in Shanghai. BOCOM has a nationwide network with 95 branches in 140 cities in China and has set up branches in New York, Tokyo, Hong Kong, Singapore and Seoul as well as representative offices in London and. BOCOM was the first Chinese national commercial bank listed in Hong Kong; it listed on the Shanghai Stock Exchange in 2007. Li has served successively as Executive Vice president, Comptroller General of the Bank and General Manager of the Bank's Wuhan Branch. He holds an MA in Economics.

¶17. (SBU) Chen Pojian, Chairman, Tian An Insurance Company. Dr. Chen is also Executive Manager of the China Insurance Industry Association. Tian An, established in 1994, is the third largest provider of property and casualty insurance products in China. Tian An is also a major insurer of infrastructure projects including the Shanghai subway and the bridges over the Huangpu River. Dr. Chen's has a PhD is from Middle and South Finance

SHANGHAI 00000557 004.2 OF 004

and Economics University and he was a visiting scholar at Princeton University.

¶18. (SBU) Xu Lianhui, Vice General Manager, China Pacific Insurance Company. China Pacific is one of the largest insurance groups in China and has been ranked by the S&P in the world's top 11. China Pacific has a well-established service network with 5469 business branches across the country. China Pacific's is a joint venture partner with ING in the Pacific-Antai Life Insurance Co., Ltd.

¶19. (SBU) Tuo Qibin, Vice General Manager, Guo Tai Jun An Securities Company. Dr. Tuo has been the Vice General Manager of GuoTai JunAn (GTJA) since 1999. GTJA is the third largest securities company in China and China's second largest underwriter. GTJA has a joint venture fund with Allianz. From 1993 to 1999, Dr. Tuo worked for GTJA as the Bond Department Manager, Agency Department Manager, Research Institution Head, GTJA Asset Management Company Research Head and GTJA (Hong Kong) Company Research Department Manager. Dr. Tuo's PhD was earned at the East China Normal University International Finance Department in 1993. In 2003, Tuo attended a two-month training program at Harvard University. Tuo was born in 1965.

JARRETT